No. 05-130

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IN THE

Supreme Court of the United States

EBAY AND HALF.COM INC.,

Petitioners,

v.

MERCEXCHANGE L.L.C.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF *AMICI CURIAE* SECURITIES INDUSTRY ASSOCIATION, THE FINANCIAL SERVICES ROUNDTABLE, BOND MARKET ASSOCIATION, AND FUTURES INDUSTRY ASSOCIATION IN SUPPORT OF PETITIONERS

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INTEREST OF *AMICI CURIAE*[1]

Amici are leading trade associations that represent the major institutions in the nation's securities and banking sectors. Collectively, their members help to shape a vibrant, competitive marketplace and a growing national economy. The member associations are at the center of the way in which investors and consumers access and use financial services.

As holders, licensees, and users of patented technologies, *amici's* members support the patent system. At the same time, *amici* are also interested in ensuring that the remedial rules for patent infringement are balanced and flexible so that they do not needlessly endanger the reliability of the nation's financial systems and markets.

The danger is real. Today's financial markets and global economy depend on electronic communications and computerized information processing. The financial industry is built on extensive interdependencies between brokerage firms, banks, depositories, data processors, market data vendors, exchanges, and clearing entities. Many parts of the systems and subsystems involved embody patented devices, processes, software, or business methods. In this increasingly interlinked environment, *amici* are concerned that automatically granting injunctions in private patent disputes will create tremendous operational risks to the banking sector and the securities markets.

Amicus Securities Industry Association ("SIA") brings together the shared interests of approximately 600 securities firms to accomplish common goals. The SIA's members include

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1. Counsel of record for all parties have consented to the filing of this brief and the consents have been filed with the Clerk of the Court. No counsel for any party authored this brief in whole or in part, and no person or entity other than *amici*, their members, or their counsel has made a monetary contribution to its preparation and submission.

leading investment banks, broker-dealers and mutual fund companies. The securities industry employs nearly 800,000 individuals, and its personnel manage, directly or indirectly, the accounts of nearly 93 million investors. SIA's primary mission is to build and maintain public trust and confidence in the securities markets.

Amicus Financial Services Roundtable ("FSR") represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the nation's consumers. FSR member companies provide fuel for America's economic engine, accounting directly for $18.3 trillion in managed assets, $678 billion in revenue, and 2.1 million jobs. FSR's mission is to be the premier forum in which leaders of the United States financial services industry influence critical public policy issues.

Amicus The Bond Market Association ("TBMA") represents approximately 200 securities firms and banks that underwrite, trade and sell fixed-income securities in the United States and in international markets. Fixed income securities include U.S. government and federal agency securities, municipal bonds, corporate bonds, mortgage-backed and asset-backed securities, money market instruments and funding instruments such as repurchase agreements. The U.S. bond market has approximately $24.1 trillion in outstanding fixed-income securities. From its inception in 1976, TBMA has worked with its member firms, Congress, the SEC, the Federal Reserve Board and the Federal Reserve Bank of New York, state regulators, and self-regulatory organizations to enhance the liquidity and efficiency of the fixed income markets.

Amicus Futures Industry Association ("FIA") is a principal spokesman for the commodity futures and options industry. Its regular membership is comprised of approximately 38 of the largest futures commission merchants in the United States.

Among its approximately 150 associate members are representatives of virtually all other segments of the futures industry, both national and international, including U.S. and international exchanges, banks, legal and accounting firms, introducing brokers, commodity trading advisors, commodity pool operators and other market participants, and information and equipment providers. Reflecting the scope and diversity of its membership, FIA estimates that its members are responsible for more than 90 percent of all customer transactions executed on U.S. contract markets.

SUMMARY OF ARGUMENT

Congress authorized courts to issue injunctions in patent infringement cases, but did not require them. To the contrary, it commanded that injunctions "may" issue "in accordance with the principles of equity." The traditional principles of equity call for flexibility and balancing. In the decision below, the Federal Circuit abandoned flexibility in patent infringement cases in favor of a rigid rule that mandates injunctions absent exceptional circumstances.

In the process of setting its rule, the Federal Circuit trivialized the role of the "public interest." In the highly interdependent financial services sector, for example, the effects of private patent disputes can create tremendous operational risks for those not party to the dispute and systemic risks to the markets generally. The public interest, accordingly, should be given significant consideration, because the reliable operation of the financial markets is of paramount importance to the public. The risk to the nation's financial system from patent disputes is apparent, as illustrated by recent examples that are discussed below.

By virtually guaranteeing injunctions, the Federal Circuit's rule distorts the incentives for innovation. Far from promoting

innovation, the automatic injunction rule may discourage implementation of useful products that combine hundreds of innovations and are innovative themselves. The rule also facilitates abusive litigation. Restoring equitable factors into the decision-making process, and empowering courts to apply them, will promote innovation by protecting those who actually develop and implement innovations and by deterring those who seek to exploit inefficiencies in the current patent system.

ARGUMENT

I. FLEXIBLE EQUITABLE PRINCIPLES SHOULD GOVERN INJUNCTIVE RELIEF.

The Patent Act provides that courts "may" grant injunctive relief "in accordance with the principles of equity." 35 U.S.C. § 283. By using "may" instead of "shall," Congress expressed its desire for flexibility, not a rigid rule holding that injunctions should issue "absent exceptional circumstances," as the Federal Circuit held below. *Compare MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338-39 (Fed. Cir. 2005) *with United States v. Cook*, 432 F.2d 1093, 1098 (7th Cir. 1970) ("may" as opposed to "shall" indicates discretion).

"Flexibility rather than rigidity" has long been the hallmark of equity. *Hecht Co. v. Bowles*, 321 U.S. 321, 329 (1944). An injunction is an "extraordinary remedy" and one to be granted only after balancing the "competing claims of injury" and after paying "particular regard for the public consequences" of an injunction. *Amoco Prod. Co. v. Village of Gambell, Alaska*, 480 U.S. 531, 542 (1987); *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 313 (1982). Considerations of irreparable injury, inadequacy of legal remedies, balance of hardships, and the public interest are the traditional equitable guideposts. *See Weinberger*, 456 U.S. at 312-13.

The Federal Circuit has steadily divorced itself from this equitable approach. In 1984, the Federal Circuit agreed that whether an injunction should issue in patent cases "depends on the equities of the case." *Roche Prod., Inc. v. Bolar Pharma. Co.*, 733 F.2d 858, 865 (Fed. Cir. 1984), *superseded on other grounds by statute*, 35 U.S.C. § 271(e). Indeed, it specifically rejected as "mistaken" the notion that an "injunction must follow" a finding of infringement. *Id.*

In 1985, this case-specific approach gave way to a rule favoring injunctions as the "norm." *See KSM Fastening Sys., Inc. v. H.A. Jones Co.*, 776 F.2d 1522, 1524 (Fed. Cir. 1985). Three years later, the "norm" became a rule favoring injunctions "unless there is a sufficient reason for denying" them. *W.L. Gore & Assoc., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988). Then in 1989, the "norm" became a "general rule" favoring an injunction "absent a sound reason for denying it." *See Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989). Finally, in *MercExchange*, the "general rule" became a "right" to an injunction to which a patent holder is "entitled" "absent exceptional circumstances" such as "public health." *MercExchange*, 401 F.3d at 1338-39.

The effect of these changes essentially has been to create an "automatic injunction" rule. This rule contravenes the express command of the Patent Act's § 283. It also builds in rigidity where flexibility is most desirable, trivializes the public interest factor of the traditional equitable test for injunctions and creates incentives opposite to the purpose of patents.

II. The Public Interest Should Be Of Paramount Concern, Not Relegated To Cases Of "Exceptional Circumstances."

A. Reliable Financial Markets Are Critical To The Public Interest.

Of particular concern to *amici* is the Federal Circuit's narrow "exceptional circumstances" exception to its general rule favoring injunctions. By its approach, the Federal Circuit effectively has restricted the consideration of the "public interest" to matters concerning "public health" in deciding whether to issue an injunction. However, in an increasingly interconnected world, courts should have the utmost discretion to consider the broad consequences injunctions can have before granting them. The nation's financial markets are a good example of why courts should have such flexibility.

1. The Nation's Markets Depend On Information Technology To Operate Efficiently And Reliably.

A sound financial industry and markets sustain the nation's economic vitality. The public therefore has a strong interest in their smooth and uninterrupted operation.

The financial industry and the markets have now irrevocably converted to electronic communications and automated transaction processing and, as a result, have enjoyed unprecedented productivity and efficiency gains. Until the 1960s, financial systems were primarily paper-based. The result, with respect to the securities industry, was that in the late 1960s growing trading volume "clogged an inadequate machinery for control and delivery of securities." H.R. Rep. No. 94-123, at 44 (1975), *reprinted in* Federal Securities Laws, Legislative History 1933-1982, Vol. III at 2514 (1983). This so-called "paperwork crisis" prompted congressional action. *Id.*

In 1975, Congress, recognizing that the markets were a "important national asset," responded with laws to ensure that "[m]odern communication and data processing facilities" would be implemented. *See* 15 U.S.C. § 78k-1(a)(1)(A)-(B). As Congress put it, developing electronic systems for a "national market system" was in the "public interest." 15 U.S.C. § 78k-1(a)(2).

As a result of decades of commitment, the financial industry has seen tremendous growth. As late as 1970, the New York Stock Exchange ("NYSE") had never in a year traded three billion shares. Today, three billion shares can trade in a matter of two days, and another three billion shares may trade in the same two days on Nasdaq, an all-electronic market that was not even launched until 1971.[2] The financial markets now also trade billions of dollars a day in products such as asset-backed securities, standardized options, and financial futures that did not even exist in 1970.

Indeed, today more Americans than ever before rely on the markets, for example, to save for a home, retirement, or their children's education. In 1980, some six percent of American households owned stock directly or through mutual funds and retirement plans. Today, 57 million households, nearly half of all American households, do so. *See Equity Ownership in America, 2005* (Invest. Co. Inst. & SIA, New York, N.Y.), at 1, *available at* http://www.sia.com/research/pdf/EquityOwnership05.pdf.

Electronic interconnection and automation of the financial markets has made this explosion in volume possible. Today, stock quotes are reported in real-time and corporate bond quotes must be reported in 15 minutes or less. Investors buy and sell

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2. *See* http://www.nyse.com/about/1088808971270.html; http://www.nasdaq.com/about/overview.stm.

stocks, bonds, and thousands of mutual funds in a matter of seconds. Through computers and electronic networks, investors are thus instantaneously linked to their banks, brokers, or money managers. These entities in turn are linked to automated clearing houses, trading exchanges, market makers, and electronic communications networks, which in turn are connected to the systems of entities that settle and clear trades and payments.

The banking sector has witnessed similar growth. In 1997, only 4.5 million U.S. households used on-line banking. At the end of 2004, some 53 million users did so.[3] Similarly, e-check transactions occurred 6.9 million times in 2003 for on-line consumer purchases, a nine fold increase over 2001.[4] Whereas paper checks were the norm two decades ago, today checks can be issued electronically, presented electronically, and settled electronically through automated clearing networks. Similar changes have occurred in on-line lending, including mortgage and car loans that are widely accessed by consumers.

With such high levels of participation in the market and electronic banking, interdependency and information sharing are critical. Any given transaction, of the hundreds of millions in a typical day, such as a loan, an e-check, or the sale of a bond or stock, thus involves systems maintained by numerous businesses working together at lightning speeds. For this interdependent financial system to function reliably, each individual component must also be reliable. A disruption in one link in the chain can affect the quality of the overall system, the

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3. *See Data Memo: The State of Online Banking* (PEW/Internet & Amer. Life Project, Washington, D.C.) (Feb. 2005), *available at* http://www.pewinternet.org/pdfs/PIP_Online_Banking_2005.pdf.

4. *More web retailers will check out e-checks*, INTERNET RETAILER, Sept. 9, 2004, *available at* http://www.internetretailer.com/dailynews.asp?id=12844.

operations of upstream and downstream market participants, and even individual investors' confidence in the system.

2. Patents Increasingly Play A Significant Role In The Financial Services Industry.

Many parts of the financial industry's intricate web are the subject of patents. The technologies and business processes upon which the financial world relies are increasingly subject to patent disputes.[5]

Historically, patents on software, electronics, and business methods have not played the significant role in the financial services industry that they do today. One principal reason for the change occurred in July 1998 with the Federal Circuit's decision in *State Street Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998). *State Street*, a case that emerged from the financial services industry, ended doubts about the patentability of software and business methods. *Id.* at 1375 (taking "opportunity to lay this ill-conceived [business method] exception to rest").

As a result of the *State Street* decision, software and business method patent applications have exploded generally, and particularly in the financial sector.[6] Jaffe & Lerner, *supra*, at

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5. *See* Adam B. Jaffe & Josh Lerner, INNOVATION AND ITS DISCONTENTS at 14-15 (2004) (charting tremendous rise in patent litigation); Barry Grossman, *Patents Now Play Important Role in Financial Industry*, AMERICAN BANKER, Dec. 17, 2004 (as more patents issue, financial services industry is likely to see an increase in litigation).

6. The United States Patent and Trademark Office ("USPTO") categorizes patents into a number of classes. Class 705 encompasses machines and corresponding methods for performing data processing or calculation operations in over twenty financial and management data processing areas, including stock/bond trading, insurance, electronic

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119; *see also* Bronwyn Hall, *Business Method Patents, Innovation, and Policy*, (Econ. Dept., Univ. of Cal., Berkeley, Working Paper E03-331, 2003), at 3-4, *available at* http://repositories.cdlib.org/iber/ econ/E03-331 (ten to twelve-thousand patents a year under broad definition of software/ business methods).

In the expanding, fast-paced, and tightly-linked financial markets, the effects of injunctions cannot be confined just to the disputing parties. An injunction over a dispute about an infringing piece of hardware, a part of a software program, or a method of doing business that even briefly threatens one link in the system can have widespread deleterious effects.

B. Private Patent Disputes Expose Markets to Operational Risks.

The risks to the financial sector from private patent disputes are real. Cases have already left their mark and exposed the broader danger.

Treasury Securities Market: The eSpeed Case. One illustration of how private patent disputes impact the public interest is *eSpeed, Inc. v. BrokerTec USA, L.L.C.*. In 2003, eSpeed, an exclusive licensee of a patented "workup protocol" for electronic trading of United States Treasury securities, sought a preliminary injunction against its competitor BrokerTec.

(Cont'd)

shopping, and money exchange. *See* USPTO, *Automated Financial Management Data Processing Methods (Business Methods)* (2000) ("USPTO White Paper") at 5. Class 705 also patent applications soared from 927 in 1997 to 1340 in 1998, 2,821 in 1999, 7,800 in 2000. *See* USPTO, *Class 705 Applications Filing and Patents Issued Data* (2004), *available at* http: //www.uspto.gov/web/menu/pbmethod/applicationfiling.htm.

BrokerTec and eSpeed provided essentially the only two electronic trading systems for the treasury securities market.

The dispute sparked the United States Department of Treasury to file a Statement of Interest in the case arguing that "the proposed injunction would effectively eliminate an electronic marketplace used by a significant percentage of traders in the secondary market for Treasury securities." *Statement of Interest of the United States* at 2, *eSpeed, Inc. v. BrokerTec USA, L.L.C.*, No. 03-00612 (D. Del., Dec. 12, 2003).

The district court denied a preliminary injunction in major part due to the impact an injunction would have on the "public interest." The court noted that (1) "shutting down the trading system used by a significant part of the market could reduce trading in Treasury securities indefinitely, making them less liquid and decreasing their attractiveness as an investment"; (2) a preliminary injunction would leave eSpeed as the only commonly-used electronic trading system for the secondary market, which created an unacceptable "systemic risk" – "[w]ithout an alternative trading system, the secondary trading market would be devastated if eSpeed's system went awry"; and (3) "'an injunction would give [eSpeed] a monopoly over the primary trading system used by the wholesale secondary market for Treasury securities'" resulting in potentially higher transaction fees. *eSpeed v. BrokerTec USA, L.L.C.*, 2004 WL 62490, *3-4, 68 U.S.P.Q. 2d 1466 (D.Del., Jan. 14, 2004). The district court further recognized that designing around the alleged infringement was not feasible. *Id.* at *3.

The district court concluded that eSpeed had not set forth any persuasive reason why its private interest in vindicating its patent rights was more important than the critical public interest in maintaining a fluid, competitive market for trading Treasury securities. *Id.* at *4. Fortunately, the issue of a permanent injunction never presented itself as a jury found that eSpeed's

licensed patent was invalid. *See eSpeed v. BrokerTec USA, L.L.C.*, __ F. Supp. 2d __, 2005 WL 3299705, *1 (D. Del., Dec. 5, 2005). However, had the issue of a permanent injunction arisen, the Federal Circuit's cramped "public health" exemption would have given the district court little discretion to avoid the deleterious consequences of an injunction.

The concerns expressed by the district court in *eSpeed* are not isolated but may arise in many other areas in the financial services industry.

The Bond Market: The MuniAuction Case. In December 2000, Grant Street Group was issued a patent on its MuniAuction system to conduct on-line auctions of newly issued fixed-income securities. Shortly thereafter, Grant Street began enforcing its patent by seeking licensing agreements from other on-line bond platforms. This led to a patent infringement suit filed in June 2001 against Thomson Financial, which provides electronic information to the financial community, over its alleged use of Grant Street's methodology for sales of municipal bonds.[7] Grant Street also informed the State of Wisconsin that using any electronic bidding system for bonds similar to that patented by Grant Street could subject the state to liability. The potential that private litigants have the "right" to a near automatic injunction that can halt on-line auctions of municipal bonds could cause great uncertainty in the bond markets which finance state and local governments.

The Banking Sector: The Check 21 Litigation. In October 2004, Congress passed the Check Clearing for the 21st Century Act, or "Check 21." Pub. L. No. 108-100, 117 Stat. 1177, *codified at* 12 U.S.C. §§ 5001-5018. The purpose of the legislation is to enable banks to handle more checks

7. *See MuniAuction Inc. v. Thomson Corp.*, No. 01-C-01003 (W.D. Pa., June 1, 2001). The case continues and has yet to be resolved.

electronically, which should make check processing faster and more efficient than physically transporting original paper checks from the bank where the checks are deposited to the bank that pays them. This transportation can be inefficient and costly.

Data Treasury Corp., which holds patents issued in 1999 and 2000 for certain electronic imaging and check processing methods, has aggressively targeted banks and check processors in numerous lawsuits, asserting patent infringement.[8] The extensive litigation has the potential to disrupt implementation of federal legislation meant to modernize the check processing industry. However, under the Federal Circuit's rigid rule, the district court in such cases would be unable to weigh such considerations.

Exchange Traded Funds: The Mopex Case. In August 2000, the American Stock Exchange filed for declaratory relief after Mopex threatened suit for patent infringement on claims that the exchange improperly permitted trading of exchange trade funds ("ETFs").[9] Mopex claimed it held valid patents on ETFs and sought to shut down the exchange's trading of these securities. After almost three years of litigation, the district court granted summary judgment to the stock exchange. It found that Mopex's business method patent was invalid because it had been disclosed in a written publication filed with the Securities and Exchange Commission over a year before Mopex had filed its patent. *See Opinion and Order, American Stock Exchange*

8. For examples of the many suits filed by Data Treasury, *see Data Treasury Corp. v. Bank of America Corp., et al.*, No. 05-cv-00292 (E.D. Tex., June 28, 2005).

9. *See American Stock Exchange, L.L.C. v. Mopex Inc.*, No. 1:00-cv-05943 (S.D.N.Y., Aug. 10, 2000). ETFs, which are publicly-traded securities structured so that the performance generally corresponds to an index such as the "S&P 500," hold hundreds of billions of dollars of investors' savings.

L.L.C. v. Mopex, Inc., at 22, No. 00-cv-05943 (S.D.N.Y, Feb. 4, 2003).

Although Mopex's lawsuit was unsuccessful, a finding of infringement and the resulting automatic injunction under the Federal Circuit's rigid rule could have caused an extraordinary disruption of the markets as well as a loss of confidence by investors in the markets.

Disaster Preparedness for Global Financial Markets: The RIM Case. The on-going patent infringement dispute between NTP and Research in Motion ("RIM"), the provider of BlackBerry devices and email services, also demonstrates the need for courts to consider the larger impact of injunctive relief. As it did in *eSpeed*, the federal government intervened in the *RIM* case in November 2005 by filing a Statement of Interest to ensure that its use of BlackBerry devices is "not impeded and that the public interest is not substantially harmed by any injunctive relief." *The United States' Statement of Interest* at 7, *NTP, Inc. v. Research in Motion, Ltd.*, No. 3-01-00767 (E.D.Va., Nov. 8, 2005).

Like the government, many professionals in the financial services industry also rely on BlackBerry devices and services, particularly as part of the business continuity and disaster contingency plans mandated by the securities regulators after the September 11, 2001 terrorist attacks. *See, e.g.*, NYSE Rule 446, Business Continuity and Contingency Plans; NASDAQ Rule 3510, Business Continuity Plans.

Yet More Examples: Increasingly, private patent disputes often are led by plaintiffs who did not invent the patented invention and have no interest, intent, or capacity to market actual products based on it. *See* p. 22, below. For example, in September 2003, Datamize, a small Montana company that functions primarily to hold patents, sued numerous on-line

brokers, including Charles Schwab, E*Trade, and Fidelity, alleging patent infringement.[10] In the suit, Datamize claimed that the defendants' Internet and PC-based trading platforms infringed several Datamize patents that were alleged to cover the ability to customize and personalize the content and layout of a user interface screen. Although Datamize ultimately lost its suit, a finding of infringement and the resulting automatic injunction could have jeopardized tens of millions of investors' access to the markets.

Similarly, the New York Stock Exchange faces a patent infringement suit with potential to affect market operations. In *Papyrus Tech. Corp. v. NYSE, Inc.*, the plaintiff claims that the NYSE infringes plaintiff's patent rights in a "wireless device that enables brokers to make and receive inquiries, receive and execute orders, and provide instructions for orders." *Papyrus Tech*, 325 F. Supp. 2d 270, 273 (S.D.N.Y. 2004). Under the Federal Circuit's holding below, if infringement is found, and the relief sought by Papyrus is granted, the NYSE could be subject to a mandatory injunction that could disrupt the world's largest stock exchange despite the fact that "[s]ince 1995, Papyrus has functioned merely as a patent holding company." *See id* at. n. 1.

Sole Source Providers: The concern about widespread disruption is heightened in the financial services markets because in many instances the markets depend on entities that are sole-source providers in their category. For example, the Consolidated Tape Association, an independent, industry-wide organization, is the single source for dissemination of real-time trade and quote information for U.S. exchange-listed securities. The entire securities industry depends on its constant data feeds. Nasdaq serves the same single-source role for prices and quotes in the

10. *See Datamize, Inc. v. Fidelity Brokerage Servs., L.L.C., et al.*, No. 03-C-00321 (E.D. Tex., Sept. 5, 2003).

over-the-counter equity markets. The Options Price Reporting Authority serves the same sole-source function for options quotes and prices.

After securities are traded, they must be settled and cleared, a process that ensures that sellers are paid and purchases are recorded to buyers. This task almost entirely falls to the Depository Trust & Clearing Corporation and its subsidiaries, whose computers, software and networks settled and cleared in 2004 some $1.1 *quadrillion* dollars in securities transactions. Its subsidiaries, the Fixed Income Clearing Corporation and the National Securities Clearing Corporation, provide the critical clearance and settlement services for fixed income instruments and mutual funds. All of these entities, along with major money center banks, national and regional exchanges, and many others, are critical elements of the market structure whose systems, if disrupted, can have enormous external effects on the nation's economy.

Managing external risk is, of course, part of an industry's function and, in the financial sector, industry participants spend enormous effort to anticipate and control the risk of market disruption. *See Towards Greater Financial Stability: A Private Sector Perspective*, (Counterparty Risk Mgmt. Policy Group II, New York, N.Y.), July 27, 2005, at 3, *available at* http://www.crmpolicygroup.org. However, as demonstrated, the issues arising from private patent infringement disputes can and do transcend the interests of the parties and create virtually unquantifiable and therefore unmanageable operational risk for the broader markets. *See, e.g., eSpeed*, 2004 WL 62490 at *3-4.

These unmanageable risks can lead to a lack confidence in the marketplace, and in a more severe case, systemic damage to the markets and financial system itself. *See Towards Greater Financial Stability: A Private Sector Perspective*, at 1, 5. Indeed, while the Department of Treasury was effective in safeguarding

the public's interest *pende lite* in *eSpeed*, the automatic injunction rule would squelch any similar concerns following a trial on the merits. The public interest, of course, does not evaporate after trial, yet the automatic injunction rule assumes it does.

To be clear, *amici* do not seek a special rule for the financial and banking services industry with respect to injunctions in patent infringement cases. Nor do they seek a rule that injunctions should never be granted. Indeed, in many cases *amici* believe injunctive relief after a finding of infringement will be appropriate. But private patent disputes do not happen in a vacuum. They can create tremendous real-world risks for those not party to them. Accordingly, under traditional principles of equity, as applied in patent infringement cases, courts should have flexibility to consider and temper these ill effects whenever they arise, whether in, or outside of, the financial services sector.

The Federal Circuit's narrow "public health" view of the "public interest" simply does not meet the need in an era of extraordinary interdependence and evolving notions of patentability. As new fields of science and industry emerge, evolving notions of the public interest should follow. *Amici* urge the Court to reject the Federal Circuit's narrow view of the public interest in this increasingly interlinked world. The Court should instead embrace a robust role for the public interest in decisions of whether to grant equitable relief in patent infringement cases.

III. The Automatic Injunction Rule Distorts Incentives to Advance Science And The Useful Arts.

In addition to the Federal Circuit's flawed, narrow view of the "public interest," its automatic injunction rule imposes substantial costs on innovation. Innovation depends on patent protection that is both strong *and* flexible. The Patent Act reflects this balance. It grants strong rights to exclude others from

making, using, or selling an invention, 35 U.S.C. § 271, but carefully balances these rights by making "extraordinary" injunctive relief discretionary.

By creating a "right" to an injunction, the Federal Circuit's decision below undoes this balance. By virtually guaranteeing that the strongest possible remedies are available in almost every case, the Federal Circuit's decision tips the balance into a tool, not for spurring innovation, but one that distorts the incentives to promote the progress of science and the useful arts. *See* U.S. CONST. art. I, § 8, cl. 8.

A. Automatic Injunctive Relief Distorts Incentives For Innovation.

The Federal Circuit's rule distorts the incentives for innovation by adopting a "once size fits all" approach rather than one tailored to the circumstances.

The patent system works differently in different industries. Dan L. Burk & Mark A. Lemley, *Policy Levers in Patent Law*, 89 VA. L. REV. 1575, 1589-90 (2003). In industries such as pharmaceuticals, a drug is more likely to be covered by a few patents held by one patentee. *Id.* at 1590. As a result, it is relatively easy to search for and identify potentially pertinent patents and avoid infringement.

But with respect to complex products such as software, which is used ubiquitously in the financial services industry, any given program can contain millions of lines of code and hundreds of parts. *Id.* at 1591. The multiple parts may contain hundreds of innovations independently arrived at but potentially subject to multiple patents held by numerous other entities. As a result, identifying relevant patents and avoiding infringement is substantially more difficult. *Id.*

In addition, in such cases, each patented innovation constitutes only a part of the overall program's value. However, because the Federal Circuit's automatic injunction rule does not differentiate between areas where a few patents cover one product and those where many patents may cover many minor improvements in a product, it empowers each of the many patent holders to coerce, by independent threats to obtain an injunction, the full value of the whole. The problem is exacerbated when different patent holders claim exclusive rights over the same invention, so called "patent thickets," or overlapping patents.[11]

Far from promoting innovation, the Federal Circuit's automatic injunction rule encourages multiple claimants, regardless of their contribution, to block commercialization of useful products that combine hundreds of innovations and are innovative themselves. The Federal Circuit's rule forces companies either to shut down production or make huge payouts that are disassociated from the value of patents that cover minor components.

Though it is inefficient and ultimately costly to the users and consumers who must bear the costs of these large payouts, the Federal Circuit's injunction rule countenances this "additional leverage," as it terms it, to patent holders. *MercExchange*, 401 F.3d at 1339. Promoting "additional leverage" by adopting a mandatory injunction rule, however, does not foster incentives to innovate. Paying hundreds of millions of dollars to address "additional leverage" that is created by inflexible rules means there will be hundreds of millions of dollars less for research and development.

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11. *See generally* Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003) ("FTC Report") at Ch. 2(III)(C)(1); *see also* Burk & Lemley, *supra*, at 1614, 1627-30.

Rules for injunctions should not be set to create a "club to be wielded by a patentee to enhance his negotiating stance," *Foster v. American Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974), and this Court should not approve a "one size fits all" mandatory rule for injunctions that promotes the power of such a club in place of genuine incentives for innovation.

B. The Automatic Injunction Rule Distorts Incentives To Commercialize Innovations For The Public's Benefit.

Patents confer rights to exclude others from making, using, and selling inventions in return for public disclosure of inventions. The right to exclude granted in return for public disclosure, however, is "not designed merely to build up a library of information . . . but to get new products into the marketplace during the period of exclusivity so that the public receives the full benefits from the grant." *Rite Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1562 (Fed. Cir. 1995) (J. Nies, dissenting); *see also Kendall v. Winsor*, 62 U.S. 322, 327-28 (1858) ("[T]he limited and temporary monopoly granted to inventors was never designed for their exclusive profit or advantage; the benefit to the public or community at large was another and doubtless primary object in granting and securing that monopoly."); *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979) (patent protection meant to "foster and reward invention" and "to stimulate further invention").

In light of this purpose, the right to exclude cannot mean that a patentee's failure to commercialize its patented invention is irrelevant to the issue of whether an injunction should be granted. Indeed, the statutory grant is intended to advantage patentees so that they can bring their patented goods to market before others. *See Rite Hite*, 56 F.3d at 1562. But when patentees fail to do so, that failure should be one of the equitable considerations that govern whether an injunction should issue.

See Foster, 492 F.2d at 1324 (denying injunction; "the appellee manufactures a product; the appellant does not. In the assessment of relative equities, the court could properly conclude that to impose irreparable hardship on the infringer by injunction, without any concomitant benefit to the patentee, would be inequitable.").

Granting mandatory injunctions to entities that have not commercialized their innovations is also contrary to the longstanding rule that equitable remedies may only be imposed where legal remedies are inadequate. *Rondeau v. Mosinee Paper Corp.*, 422 U.S. 49, 59-60 (1975) (affirming denial of permanent injunction where shareholders had "adequate remedy by way of an action at damages"). Were it any other way, injunctive relief becomes a tool to block innovation and capture the value added by those who actually spend the millions of dollars to implement and commercialize innovative ideas.

Indeed, such abusive use of patents has been on the rise in the last decade. There are an increasing number of entities whose business model is based solely on enforcing patents, not developing products. These entities are known by a variety of names, including patent holding companies, patent assessment companies, non-practicing entities, and more commonly by the derogatory term "patent trolls." *See* FTC Report at 31, n. 220.

These entities do not commercialize patented innovations, but commercialize patents. In many cases, patents are their only products. As one such entity explains it, their business is "analyzing, aggregating, and packaging inventions to increase the value of the overall collection." Intellectual Ventures, "Who We Are," http://www. intellectualventures.com/about.aspx. These entities acquire patents from, for example, failed companies, and, in some cases, generate their own by searching for gaps in current patents that they can fill by filing fresh applications.

Although these companies often bill themselves as "invention" companies, their focus is on getting patents and asserting them. They take advantage of an under-funded U.S. Patent & Trademark Office and the difficulties it faces in delivering quality patents in fields that historically have not been the subject of patents. *See* FTC Report at 8-10 (discussing inadequacies in patent system); *see also* USPTO White Paper at 11 (acknowledging that examining business method patents is "filled with challenges"); Jaffe & Lerner, *supra*, at 145-49 (discussing "Special Problems of Emerging Industries").

As a result of the USPTO's difficulties, patent quality has degraded. Not surprisingly, poor patent quality results in reduced rates of innovation and higher prices for consumers. *See* Wendy H. Schacht & John R. Thomas, PATENT REFORM: INNOVATION ISSUES, CONGRESSIONAL RESEARCH SERVICE REPORT FOR CONGRESS (2005) at 6-7. Indeed, it encourages opportunistic rent-seeking instead of beneficial innovation, and forces industry unnecessarily to devote resources on patent litigation defense.[12]

For many non-practicing entities, value comes from settlements forced under threats to obtain devastating court orders to stop production. In addition to the club of an injunction, such entities also wield the high-cost of defending patent infringement cases to extract greater value than a patented part contributes to a whole system.[13] Financial institutions are prime

12. *See* Bronwyn H. Hall & Dietmar Harhoff, *Post-Grant Reviews in the U.S. Patent System—Design Choices and Expected Impact*, 19 BERKELEY TECH. L.J. 989 (2004); Robert P. Merges, *As Many as Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform*, 14 BERKELEY TECH. L.J. 577 (1999); *see also* Zachary Roth, *The Monopoly Factory*, WASHINGTON MONTHLY, June 1, 2005.

13. The "rule of thumb" is that defending a patent infringement case will easily exceed $1.5 million. *See* Mark H. Webbink, *A New* (Cont'd)

targets for these non-practicing entities. Financial institutions are perceived to have endless deep pockets and a high volume of "taxable" daily transactions – both an attractive lure for claimants.[14]

The Federal Circuit's automatic injunction rule encourages the commercialization of patents instead of rewarding those who commercialize patented innovations and seek injunctions to protect their legal monopoly while they compete in the marketplace. By guaranteeing injunctive relief regardless of the circumstances of the case, the Federal Circuit's rule shifts scarce resources to plaintiffs who exploit the patent system at the expense of those who actually invest in making products and delivering services that benefit the public.

Reinserting traditional balancing principles of equity is the solution to the problem. Instead of holding the sword of Damocles over industry regardless of the circumstances of a case, this Court should free the lower courts to consider all the relevant factors before granting injunctions, including factors such as whether an asserted patent is an improvement on existing

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Paradigm for Intellectual Property Rights and Software, 2005 DUKE L. & TECH. REV., May 1, 2005, at 15. Larger cases can cost each side up to $4 million. *See* Sarah Lai Stirland, *Will Congress Stop High-Tech Trolls?*, NATIONAL JOURNAL, Feb. 26, 2005, at 612.

14. The Court has been careful to consider the risks of excessive litigation costs in other contexts. *See, e.g., Blue Chip Stamps v. Manor Drug Stores*, 421 U.S. 723, 740-41 (1975) (recognizing as basis for limiting plaintiff class for private suits under Rule 10b-5 that mere pendency of securities lawsuit "may frustrate or delay normal business activity of the defendant which is totally unrelated to the lawsuit" and that litigation costs and disruptions impose "a social cost rather than a benefit"). Similar concerns should cause the Court to be careful when crafting remedies in patent cases.

techniques, whether and to what degree the patented innovation is merely a component in a complex good, the length of time a patent has been unused, whether a patentee intends to commercialize the invention, and whether the patentee has already licensed the invention, and if so, whether widely or exclusively.

Moreover, courts should be encouraged to be protective, not dismissive as the Federal Circuit was below, of the public interest. The public has no meaningful way to address in court the external consequences, such as disruption to financial markets, of private patent disputes. Nor can non-disputants seek redress for the wider injuries that can be caused by injunctions. Letting courts balance all of the traditional equitable factors will provide effective remedies against infringement and encourage innovation for the public benefit.

CONCLUSION

The Federal Circuit's decision below replaces the principles of equity with a rigid rule contrary to the command of the Patent Act, and wrongly adopts an overly narrow view of the public interest component of the long-standing equitable test for injunctions. It should be reversed.

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